

REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

AUDIT OF ELDORADO CASINO CONTRACT COMPLIANCE FOR OPERATING YEARS 2006-2007

INTERNAL AUDIT REPORT 220408-08

June 26, 2008



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Councilman Joe Shyne
Chairman, Shreveport City Council

Dear Councilman Shyne:

Subject: IAR 220408-08 - Audit of Eldorado Casino - Contract Compliance for Operating Years 2006-2007

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

Leanis L. Graham, CPA, CIA
City Internal Auditor

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**EXECUTIVE SUMMARY
AUDIT OF
ELDORADO CASINO - CONTRACT COMPLIANCE
FOR OPERATING YEARS 2006-2007
INTERNAL AUDIT REPORT (IAR) 220408-08**

The purpose of the executive summary is to convey in capsule form the significant issues of the audit report. The executive summary is a vehicle for reviewing the report and should only be used in conjunction with the entire report.

INTRODUCTION

On May 19, 1999, the City entered into a lease agreement with Hollywood Casino. After construction was completed, the opening date was December 20, 2000. On October, 2005, the casino was sold to Eldorado. The end of 2007 was the casino's seventh year of operation.

RECOMMENDATION EVALUATION RISK CRITERIA

The chart below summarizes the recommendations outlined in the report and our evaluation of risk for the recommendations. We evaluated the importance of each audit recommendation by assigning each a level of risk. The risk levels, as defined in the chart below, were determined based on the possible results for the entity if the recommendation is not implemented.

<i>Risk Levels</i>	<i>Recommendations</i>
High Risk Possibility of fraud, waste, and abuse of City assets; Interrupted and/or disrupted operations; Entity's mission not being met; Adverse publicity.	No recommendations are applicable.
Medium Risk Possibility of continuing, significant operating inefficiencies and high-level non-compliance issues.	Eldorado Casino should: <ul style="list-style-type: none"> · Strengthen procedures to achieve the voluntary procurement goals. (Finding 1) · Strengthen the review of vendors for M/WBE designation. (Finding 2) The City should: <ul style="list-style-type: none"> · Appoint the full complement of persons to the Advisory Council. (Finding 3) · Require Advisory Council members to sign a conflict of interest disclaimer. (Finding 3) · Designate a City contact to maintain documentation such as the Advisory Council minutes and the quarterly State Gaming compliance reports. (Finding 3)
Low Risk Possibility of continuing operating inefficiencies and some low-level non-compliance issues.	No recommendations are applicable.

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OBJECTIVES

We have completed an audit of the ground lease dated May 19, 1999, between the City as landlord, and Eldorado Casino as tenant. Our objectives were to determine whether, as defined in the lease agreement, the tenant:

- Remitted the correct amount of gaming, rent, and adjusted gross receipts to the City.
- Complied with the Equal Opportunity Employment and Affirmative Action Plan.

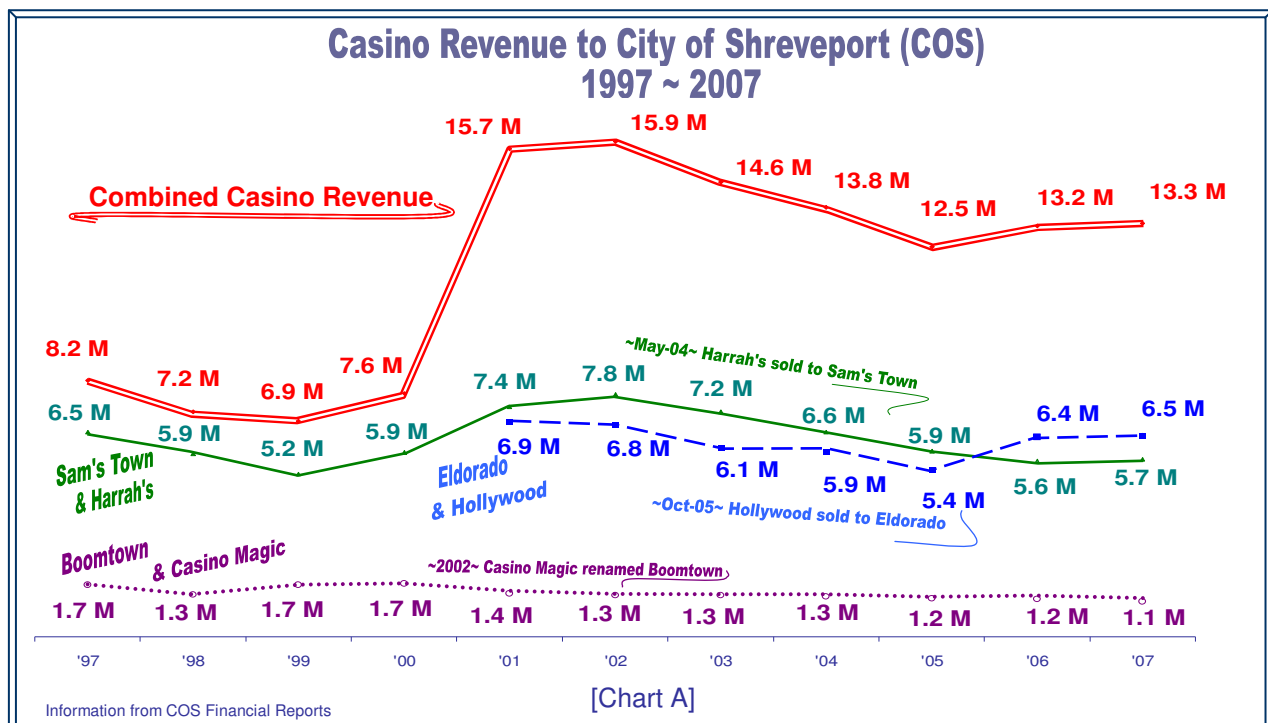
SCOPE AND METHODOLOGY

Our audit was performed in accordance with generally accepted governmental auditing standards as defined in Section A.20 of the Internal Audit Office Operating Instructions Manual. The scope of the study of internal control was limited to the general controls surrounding our objectives for the specified operating years. Audit procedures applied included the following:

- Reviewing applicable records and documents.
- Interviewing appropriate operating personnel and management.

BACKGROUND

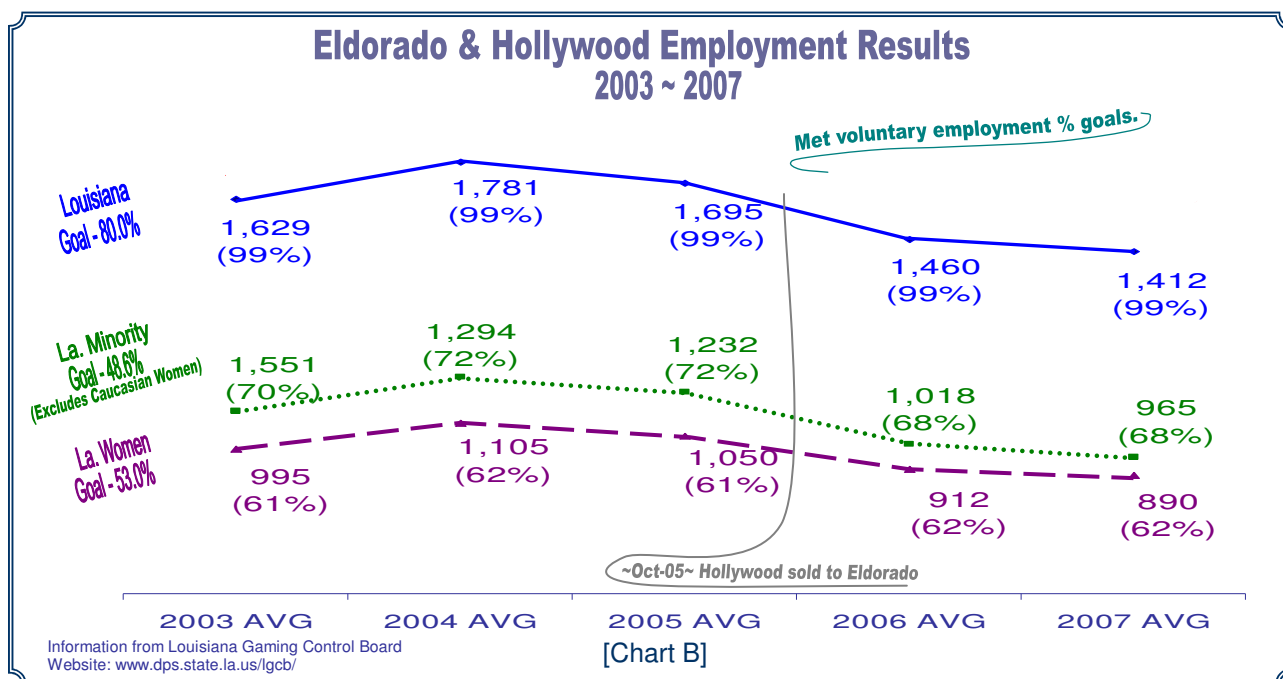
In October 2005, Eldorado purchased Hollywood which had been operating since 2000. It is one of three casinos in which the City of Shreveport receives revenues. A summary of the revenues received over the last ten years from each casino and from all the casinos combined is provided below in *Chart A*.



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Eldorado reports to the Louisiana State Gaming Control Board, monthly revenue and admissions; employment results including total, Louisiana, minority, and women; and procurement results including percentage of Louisiana, minority, and women-owned businesses.

As illustrated below in *Chart B*, Eldorado Casino has achieved its employment voluntary goals of 80% Louisiana employees, 48.6% minority employees, and 53.0% women employees.



CONCLUSIONS/FINDINGS/RECOMMENDATIONS

The Internal Audit Office expresses appreciation to the management and personnel of Eldorado Casino for their cooperation and assistance provided during our audit. Based on the results of our audit, we determined that the City was paid per the terms of the agreement.

Based on our review, we believe management could enhance the efficiency and control environment by addressing the following concerns:

Eldorado Casino

- Achieving the voluntary procurement goals.
- Strengthening the procedure to verify vendors as minority/women-owned businesses.

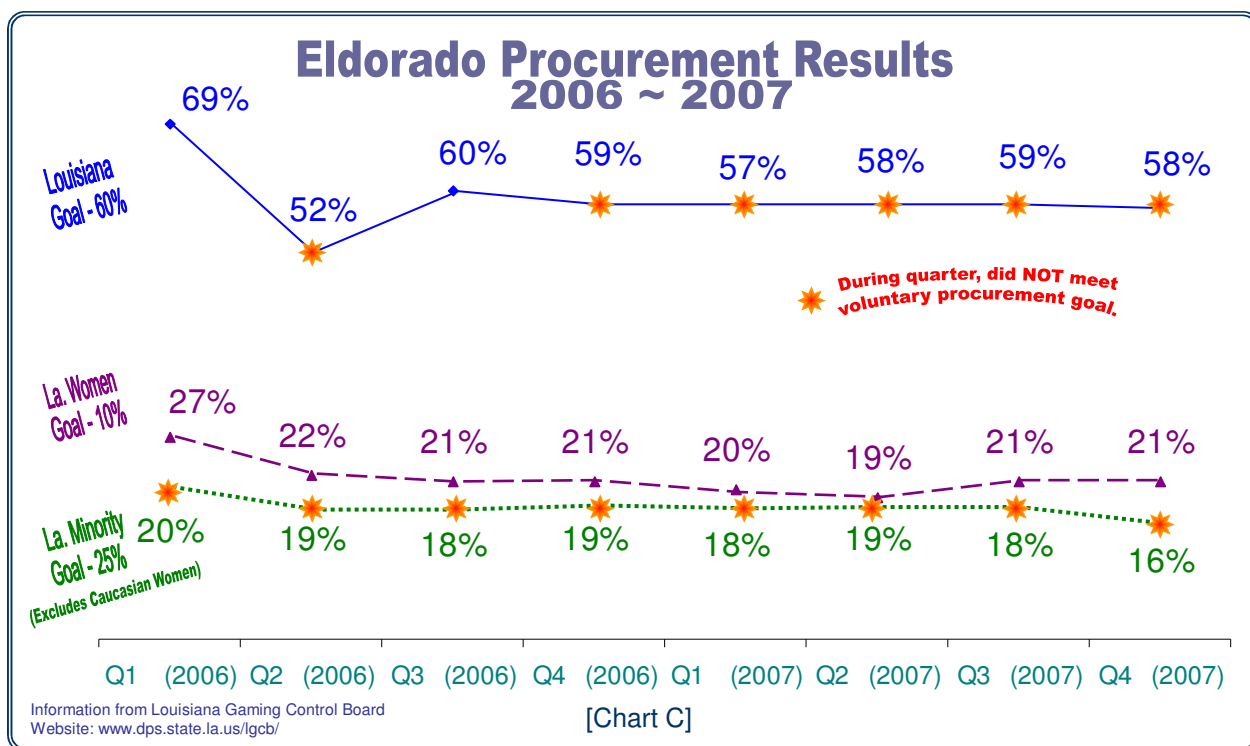
City of Shreveport

- Appointing members to the Advisory Council.
- Requiring the Advisory Council members to sign a conflict of interest disclaimer.
- Designating a City contact to coordinate the reporting and recordkeeping functions such as maintaining the Advisory Council minutes and the quarterly State Gaming compliance reports.

1. Voluntary Procurement Goals

Criteria: When granted a riverboat license, the riverboat casino establishes voluntary specific employment and procurement goals with the Louisiana Gaming Control Board. Eldorado's procurement goals are to spend 60% towards Louisiana-owned companies, 25% with Louisiana minority-owned companies, and 10% with Louisiana woman-owned companies.

Condition: During the audit period of 2006 and 2007, as reported to the Louisiana Gaming Control Board, Eldorado had not always achieved its voluntary procurement goals. As illustrated below in *Chart C*, the quarters in which the voluntary goals were not met are indicated by the ★ symbol.



Effect:

- Possibility that minority and Louisiana vendors have less business.
- Negative publicity.

Cause: Management has stated that the primary reasons were vendor availability and vendor pricing.

Recommendation: We recommend that Eldorado continues to make good faith efforts towards the voluntary procurement goals.

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Management Plan of Action: In an effort to meet our voluntary procurement goals, Eldorado Resort Casino Shreveport ("Eldorado") works closely with the City of Shreveport's Fair Share Program to grow business relationships with potential Louisiana and Minority-Owned vendors. Additionally, Eldorado networks through various organizations within the community such as the Minority Business Council to meet potential MBE (Minority Business Enterprise) & WBE (Woman Business Enterprise) vendors. Our purchasing department networks with the other casinos in the community in order to share information about new vendors.

2. Verification of Minority/Women-Owned Vendor Status

Criteria: As a measure of a casino's accomplishments toward minority/women vendor procurement, a quarterly report is submitted to the City detailing minority (MBE) and women business enterprise (WBE) vendor procurement. Reliance is placed on the accuracy of this report and the surrounding control environment to determine compliance with MBE and WBE procurement goals.

Condition: During a review of the MBE and WBE vendor list, we noted that Eldorado requires that vendors provide ownership documentation and a notarized affidavit asserting the vendor's MBE and WBE status.

However, because there were no site visits or other independent verification performed, we believe this procedure needs to be strengthened because it does not provide enough assurance that a vendor is an MBE/WBE.

Effect: Possible inaccurate classification of MBE/WBE.

Cause: There are no consistent standards for verifying MBE/WBE vendor certifications.

Recommendation: We recommend that Eldorado consider the following possibilities of verifying vendors as MBE and WBE:

- Utilize other certifying entities such as the City of Shreveport's business certification programs whereby vendors could be evaluated for minority/female business status;
- Evaluate whether the process of licensing vendors by the Louisiana State Police can be relied upon for MBE/WBE purposes. If the process is acceptable, then 98% of the vendor expenditures will be regarded as MBE certified:
 - ◆ 20 vendors representing 54% of the expenditures have an MBE certification: This process provides the most assurance that a vendor is an MBE or WBE because site visits and review of ownership and financial documentation are performed.
 - ◆ 8 vendors representing 44% of the expenditures are licensed: Vendors that do at least \$200,000 worth of business with a casino are licensed by the Louisiana State Police as a suitable vendor. During this process, the Louisiana State Police performs a site visit and reviews ownership and financial documentation. A recertification is performed every 5 years. However, the Louisiana State Police does not provide an MBE or WBE certification. Although no MBE/WBE certification is given, this process does provide assurance that the stated owners are truly operating the business.
 - ◆ 6 vendors representing 2% of the expenditures do not have an MBE certification or a license.

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- Adopt a formal process of evaluating a vendor's MBE and WBE status. This process, at a minimum, should include certification training, documented site visits, and review of appropriate documentation;
- Contract a consultant to perform MBE and WBE verifications.

Management Plan of Action: There are no current outside independent agencies to verify or certify that our vendors have the qualifications determined by the LA Gaming Control Board. Eldorado Resort Casino relies on our vendor registration process. This process requires a notarized affidavit from the vendor certifying their ownership structure. After review of the vendor packet, our Purchasing Compliance Clerk conducts an on-site visit and documents if any further information is needed for a potential or current vendor. The LA State Police certifies a vendor applying for a non-gaming permit for purchases in excess of \$200,000 a year with any particular casino. Not all of our vendors exceed that amount and do not possess a non-gaming permit.

3. Advisory Council

Criteria: The Equal Opportunity Employment and Procurement Advisory Council (the "Advisory Council") was established by the casino and the City in an effort to meet and increase the voluntary procurement goals established with the Louisiana Gaming Control Board. The Advisory Council is to meet on a quarterly basis with the overall objective of expanding the level of MBE and WBE procurement, and increasing the number of minorities in management positions.

Condition: A review of the quarterly meetings held during the audit period of 2006 and 2007 indicated the City has not appointed the full complement of three members to the Advisory Council.

Furthermore, we noted that the following procedures have not been instituted to improve oversight of Advisory Council operations:

- The Advisory Council members have not been required to sign a conflict of interest disclaimer.
- The City has not designated a contact to maintain the meeting minutes and quarterly reports.

Effect: The Advisory Council cannot effectively perform its oversight duties.

Cause: Management oversight.

Recommendation: We recommend that the City:

- a. Appoint members to the Advisory Council.
- b. Require Advisory Council members to sign a conflict of interest disclaimer.
- c. Designate a City contact to maintain recordkeeping information such as the Advisory Council minutes and compliance reports.

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Management Plan of Action:

- a. We have secured a listing of the councils from Fair Share, as well as, a listing of candidates to fill the vacant position on each. We will make the appointments shortly.
- b. We will additionally require the members (as with all boards) to sign the disclaimer.
- c. We will also appoint our designee to maintain appropriate reports.

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CAO
City Council
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City Attorney
External Auditor
Eldorado Casino